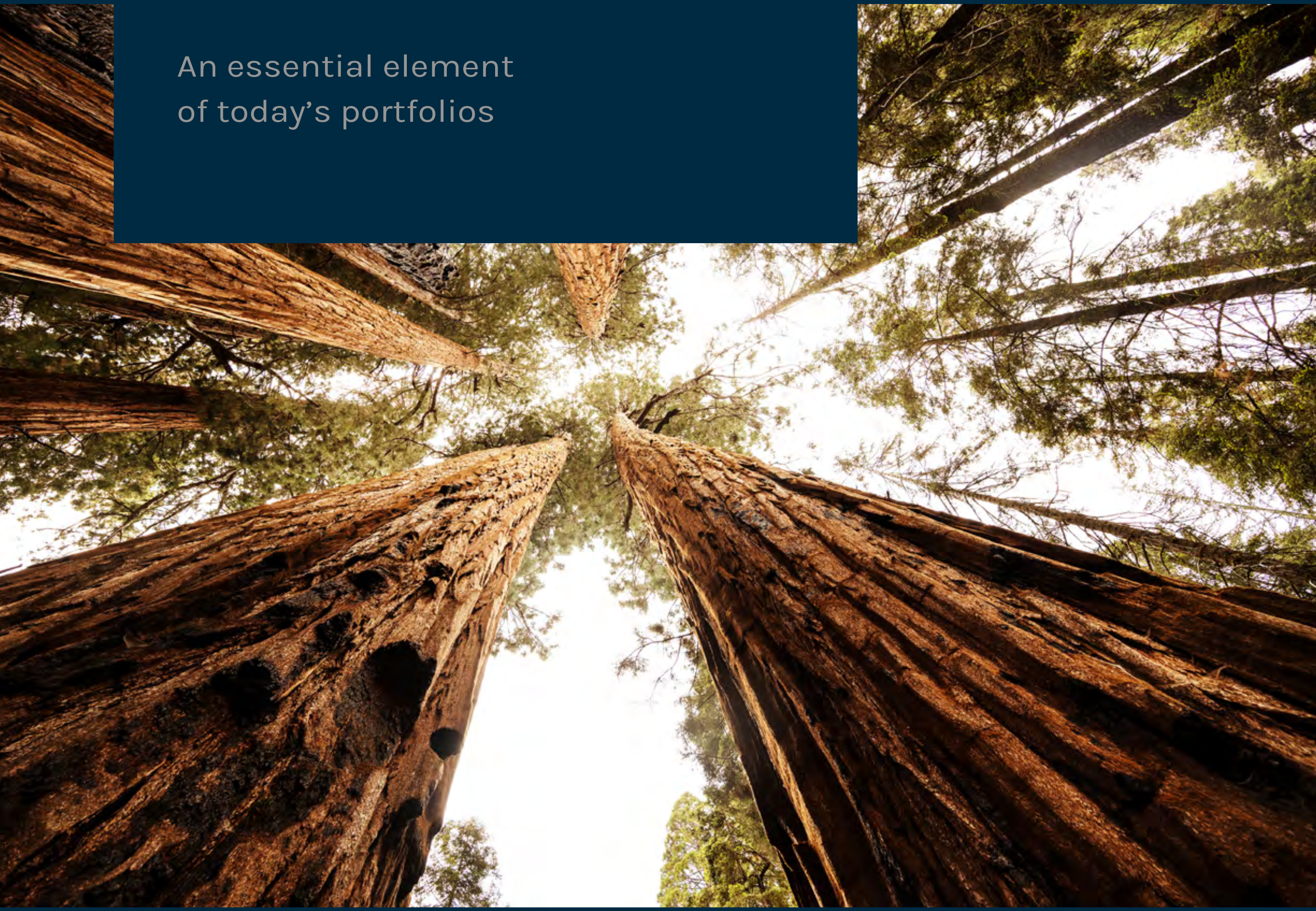
ARES Wealth Management Solutions

Principles of Private Markets

An essential element
of today's portfolios



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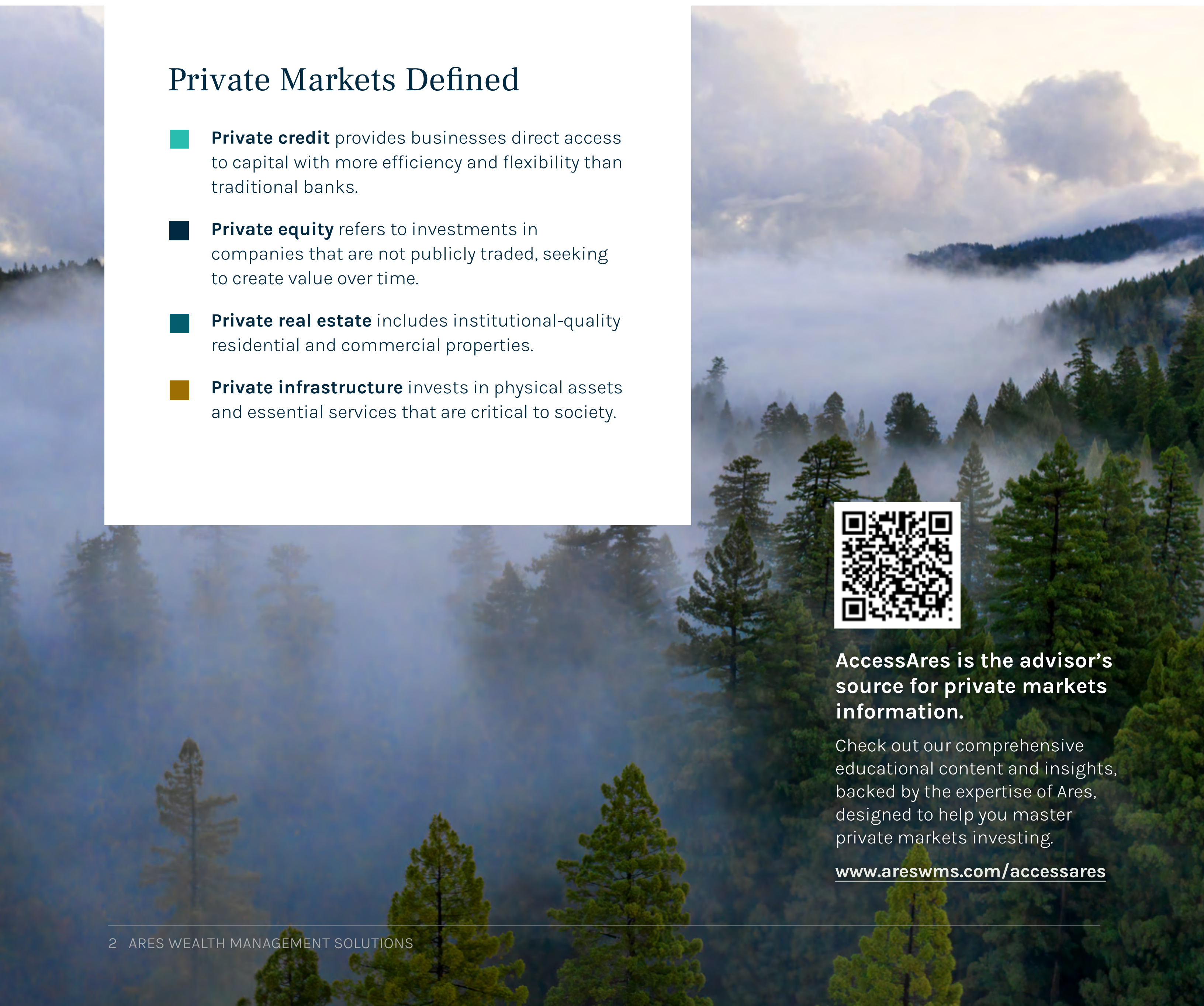
Public-only portfolios are insufficient in today's markets

Seismic change is driving the reality that public market investing may no longer achieve most investors' long-term goals. Private markets offer an expanded toolkit that may help investors better preserve and grow long-term wealth.



Private Markets Defined

- **Private credit** provides businesses direct access to capital with more efficiency and flexibility than traditional banks.
- **Private equity** refers to investments in companies that are not publicly traded, seeking to create value over time.
- **Private real estate** includes institutional-quality residential and commercial properties.
- **Private infrastructure** invests in physical assets and essential services that are critical to society.

AccessAres is the advisor's source for private markets information.

Check out our comprehensive educational content and insights, backed by the expertise of Ares, designed to help you master private markets investing.

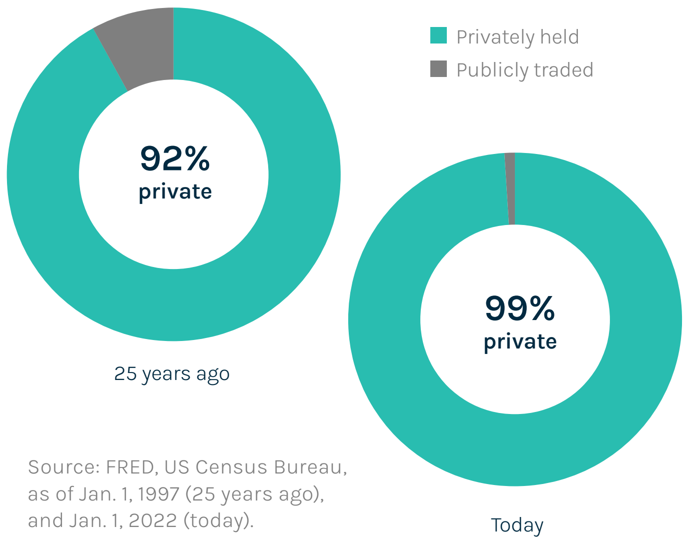
www.areswms.com/accessares

Key changes are fueling the appeal of private markets

Companies are staying private. Public indices are becoming less diverse.

In response to increased regulation and the growing pool of private equity investors, companies are staying private for longer—or choosing not to go public at all.

As a result, public equity indices have grown smaller and more concentrated. Over the last 25 years, the number of public companies has decreased by about 50%, while the top 10 constituents of the S&P 500 Index have ballooned to 35% of the Index's total market cap.[1]



Source: FRED, US Census Bureau, as of Jan. 1, 1997 (25 years ago), and Jan. 1, 2022 (today).

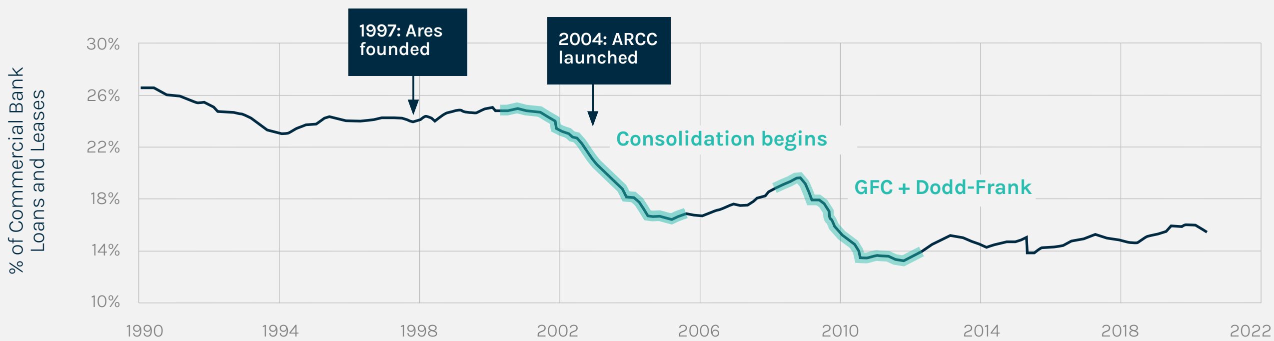
Traditional banks have sharply reduced their lending to mid-sized companies. Private lenders are filling the gap.

The consolidation of the banking industry has led to a decline in banks' willingness to lend to mid-sized businesses. This has left these companies, often considered the heartbeat of the U.S. economy, without the debt funding they need to grow. Direct lenders such as private credit funds have steadily taken share from traditional banks.

Higher underwriting standards and the recent exits of legacy lenders have also impacted the real estate and infrastructure markets. With fewer players and a shortage of funding, there is a greater need for private real asset funds.

These enduring trends have made private markets an essential component of a well-balanced portfolio.

Decline in number of bank loans to middle market companies



Source: Federal Reserve H8 Data.

[1] Source: S&P as of Dec. 31, 2022.

Private markets have historically offered several benefits relative to publicly traded investments

Private Credit

- **Strong risk-adjusted results** with a track record of equity-like returns and moderate drawdowns through multiple economic crises.
- **Durable income** and superior yields compared with leveraged loans.
- **Interest rate protection** from floating rate debt, which is less sensitive to rate moves.

Private Equity

- **Attractive risk-adjusted returns** relative to public equities, potentially helping investors compound wealth over time.
- **Broad opportunity set** of quality businesses outside the scope of the public markets.
- **Superior risk management** with milder drawdowns, lower correlations to public asset classes and less frequent valuations.

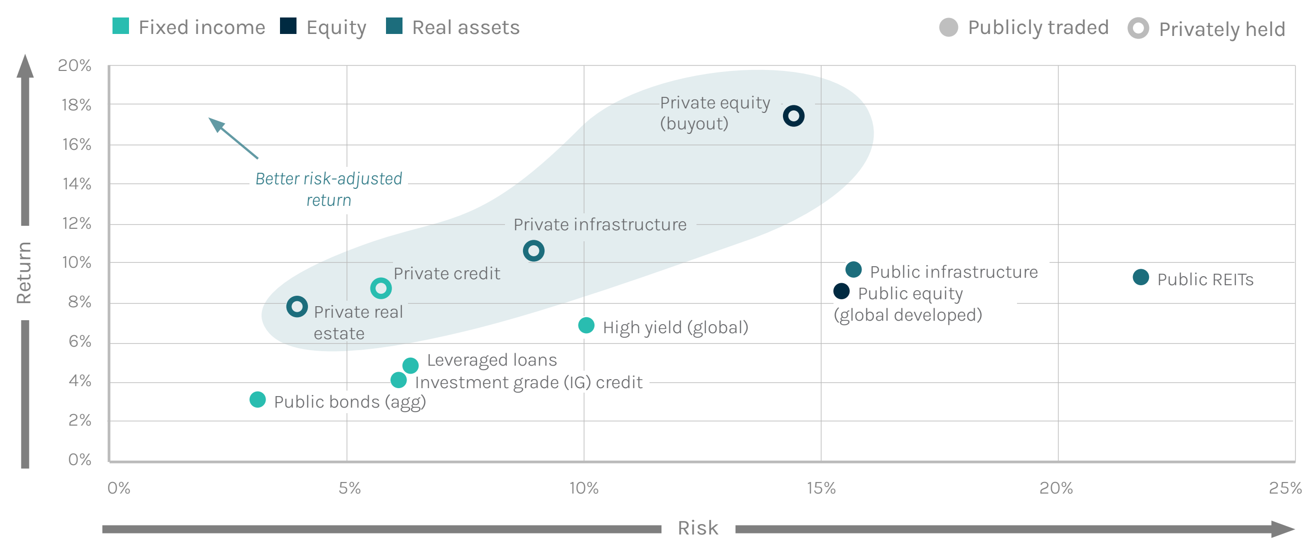
Private Real Estate

- **Enhanced diversification** through low correlation to public equity and fixed income markets.
- **Inflation protection** from inflation adjustments in leases and long-term revenue contracts.
- **Stable cash flows** due to contractual lease obligations and credit-worthy counterparties.

Private Infrastructure

- **Steady and defensive income** from long-term revenue contracts with credit-worthy counterparties.
- **Pricing protection** from contracts that are linked to inflation, as well as high barriers to entry.
- **Portfolio diversification** benefits from lower correlation to public equity markets.

Private markets have delivered superior risk-adjusted returns relative to public markets



Each data point represents an index. Data points use index returns Mar 2003 – Mar 2023. Appraisal-based valuations may be subject to smoothing bias, in which case appraisal-based volatility may be understated. Private equity refers to Burgiss Buyout Index. Private real estate refers to NFI-ODCE Index. Private credit refers to Burgiss Private Debt Index. **Past trends do not imply, predict or guarantee future results.**

A changing world requires a new asset allocation approach utilizing private markets

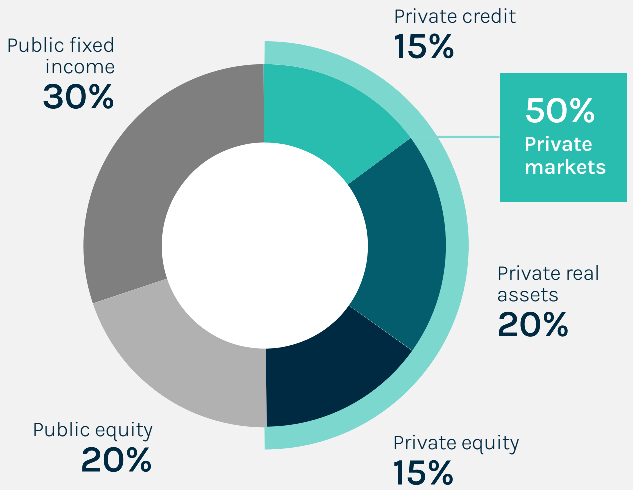
Private markets potentially offer a better way to blend asset classes and optimize portfolios. While the classic 60/40 portfolio focuses on asset class diversification, our research has found that performance and loss can be better controlled by focusing on risk-based diversification. Looking at asset allocation through the lens of risk factors can potentially balance uncorrelated drivers of portfolio return for more efficient portfolios.

A 50% allocation to private markets is not an arbitrary choice. It is the optimal outcome of a new approach that balances risk and reward. And the results are compelling.

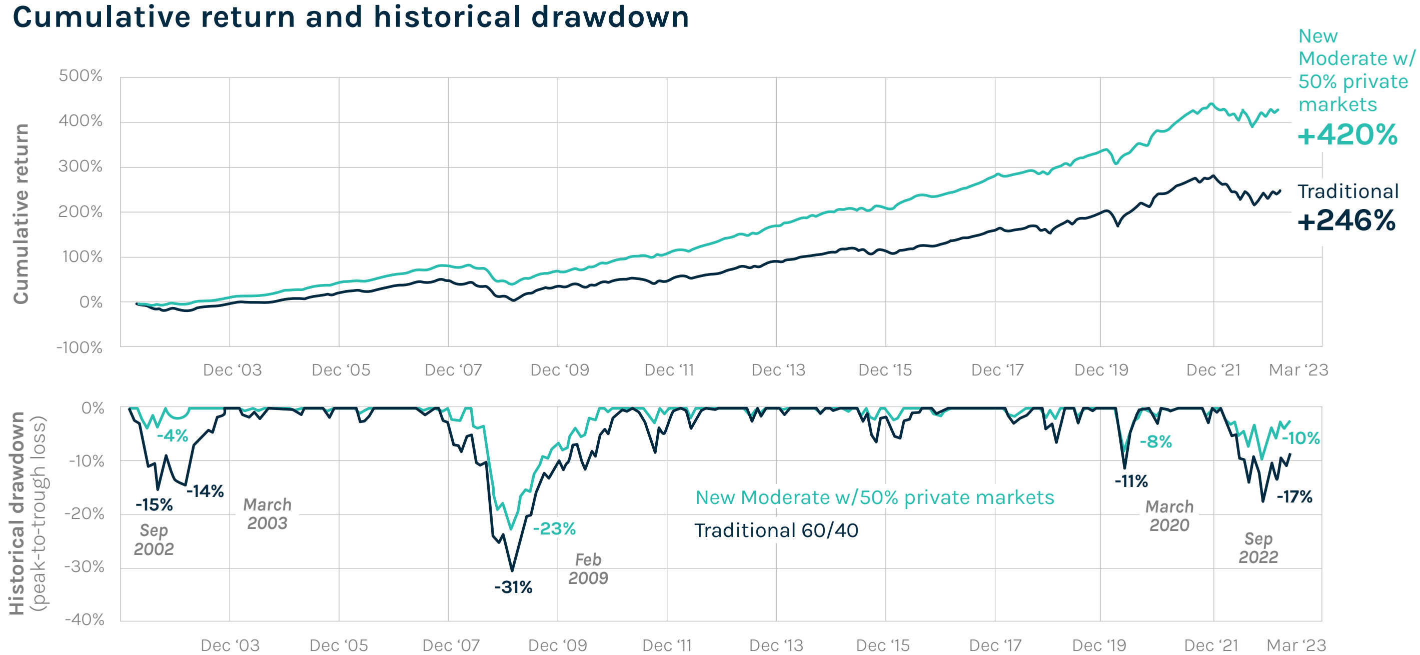
Relative to the traditional 60/40 portfolio, the New Moderate Model Portfolio delivered nearly double the cumulative returns over the past 20 years with meaningfully fewer drawdowns.

In a hypothetical portfolio, the combination of higher return and lower volatility resulted in a doubling of portfolio efficiency.

The New Moderate Model Portfolio



Cumulative return and historical drawdown



Based on a hypothetical portfolio over a 20-year period through March 31, 2023, using index returns. Public equity represented by MSCI ACWI NTR. Public fixed income represented by Bloomberg 7–10-year government bond index. Private equity represented by Burgiss Buyout index. Private credit represented by Burgiss 1L index. Real assets represented by a 50/50 split of Burgiss Infrastructure index and NCREIF-NFI ODCE real estate index. Historical performance March 2002–March 2023. An actual portfolio with the same characteristics would have slightly lower performance due to management fees, etc. **Past performance is no guarantee of future returns.**

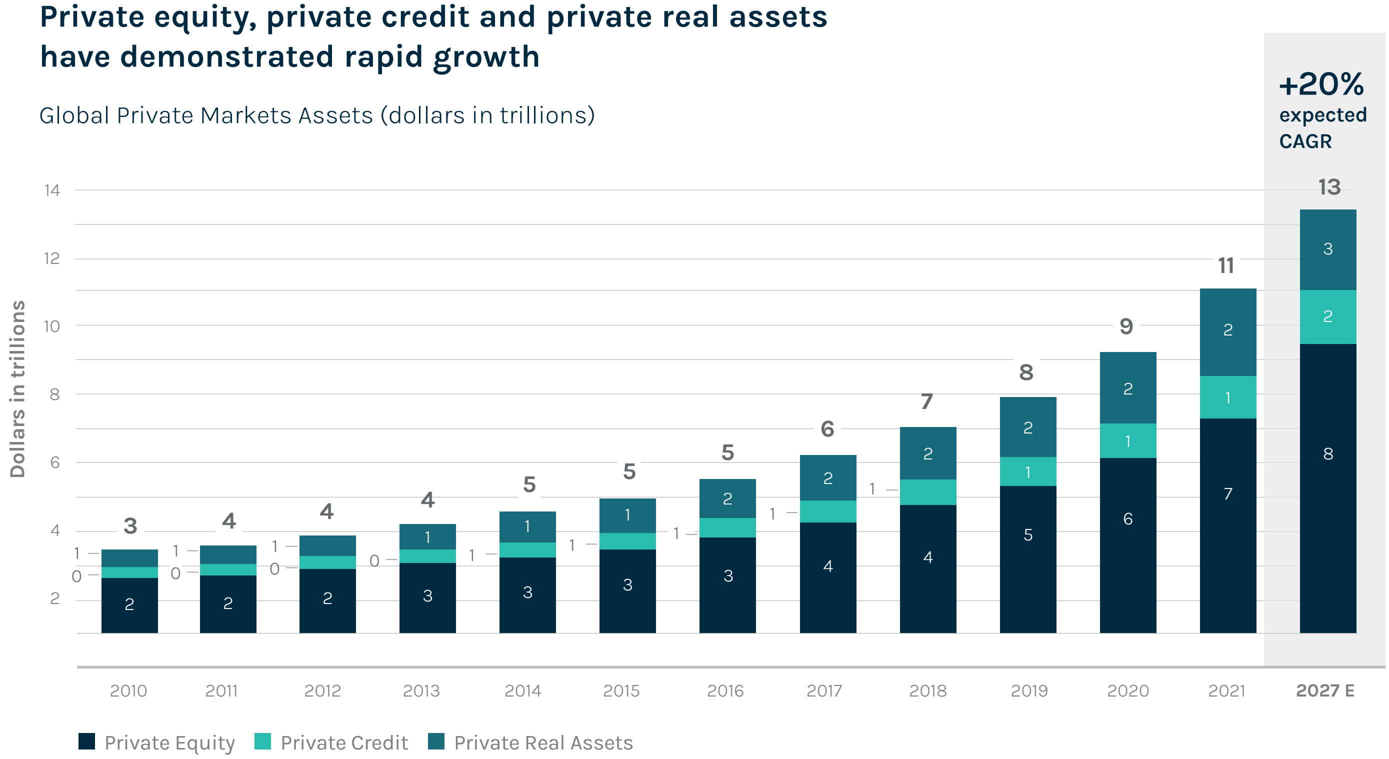
Private markets are more accessible than ever before

Private markets used to be the domain of the institutional investor, but innovative structures and approaches are making them available to individuals as well. The democratization of private markets is well under way, with purpose-built solutions that offer monthly or quarterly liquidity, enhanced visibility into the underlying holdings, and 1099 tax reporting.

As the industry shifts toward products designed to meet the needs of individual investors, the growth of private markets investments should only accelerate. This growth is expected to continue across all asset classes.

Private equity, private credit and private real assets have demonstrated rapid growth

Global Private Markets Assets (dollars in trillions)



Source: Q1 2023 PitchBook report. For illustrative purposes only. **Past performance is not indicative of future results.**

Ares is committed to helping investors benefit from the private markets opportunity

We believe private markets investments can play an important role for nearly every investor, to address any goal at each phase of life. A diversified portfolio with exposure to private markets investments—including private equity, private credit, private real estate and private infrastructure—can be a key component of long-term wealth creation.

To learn more about private markets investing, visit **www.areswms.com/accessares**

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